Report

of the

Examination of

Eagle Point Mutual Insurance Company

Chippewa Falls, Wisconsin

As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 11, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2000, of the affairs and financial condition of

EAGLE POINT MUTUAL INSURANCE COMPANY
Chippewa Falls, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 2000, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on June 7, 1879, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the

Eagle Point Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Barron, Chippewa, Clark, Dunn, Eau Claire, Marathon, Rusk and Taylor

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis in annual, semiannual, or quarterly payment methods. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through nineteen agents, three of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All Lines of Business (New and Renewal)	12.5%

Agents have authority to adjust losses up to $2,500. Losses in excess of this amount are adjusted by an outside adjuster. Company adjusters receive $10 for each loss adjusted plus $.345 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Henry Ruff*	Retired	Bloomer, WI	June 2001
Donald Crank	Logger	Holcombe, WI	June 2003
Lawrence Starck	Retired	Cadott, WI	June 2002
Bonnie Lueck*	Insurance Agent	Bloomer, WI	June 2003
Harlan Eslinger	Retired	Cadott, WI	June 2002
John Rittenhouse*	Manager of Company	Willard, WI	June 2002
Stephen Meinen	Banker	Chippewa Falls WI	June 2003

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $35 for each meeting attended and $.345 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2000 Salary
Henry Ruff	President	$ 1,195.00
Lawrence Starck	Vice-President	760.00
John Rittenhouse	Secretary/Treasurer/Manager	36,988.00

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Adjusting (or Loss) Committee
Henry Ruff, Chair
Bonnie Lueck
Lawrence Starck
Harlan Eslinger
Stephen Meinen
Donald Crank
John Rittenhouse

The board of directors meet monthly so no other committees are appointed.

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$445,473	$413,860	1,337	$12,245	$2,157,831	$1,655,961
1997	476,606	393,214	1,309	19,414	2,263,591	1,729,255
1998	384,128	388,347	1,301	(60,538)	2,425,735	1,913,100
1999	387,384	283,525	1,200	59,454	2,562,628	2,049,583
2000	377,121	338,015	1,145	(3,619)	2,460,379	1,956,278

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios	
				Gross	Net
1996	$1,196,004	$549,135	$1,655,961	72%	33%
1997	1,031,527	512,154	1,729,255	60	30
1998	1,005,117	377,349	1,913,100	53	20
1999	1,084,734	312,209	2,049,583	53	15
2000	1,030,899	369,961	1,956,278	53	19

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$413,860	$137,412	$445,473	93%	25%	118%
1997	393,214	161,458	476,606	83	32	114
1998	388,347	152,900	384,128	101	41	142
1999	283,525	137,386	387,384	73	44	117
2000	338,015	139,846	377,121	90	38	127

The company has had fairly consistent growth in its surplus. Surplus has increased four of the five years during this exam period. However, in 2000, surplus declined slightly partially due to unrealized capital losses on investments. The loss ratio has fluctuated from a low of 73% to a high of 101%. The expense ratio has fluctuated from a low of 25% to a high of 44%. The company has experienced underwriting losses as exhibited by the composite ratio which has been over 100% for all five years. In 1998, the company suffered a bad loss year due to several windstorms, which affected other Wisconsin-based insurers. Policies in force have been declining steadily and are at 1,145 in 2000.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 01, 2001
Termination provisions:	As of any January 1, by either party giving at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Excess of Loss
	Lines reinsured:	Liability
	Company's retention:	$2,500 in respect to each and every loss
	Coverage:	100% of any loss, including loss adjustment expense in excess of $2,500 subject to the following limits: a. $1,000,000 per occurrence, single limit, combined injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	75% of premiums reported
	Ceding commission:	None
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	$250,000
	Coverage:	When the company's net retention is $250,000 or more in respect to a risk, a pro rata portion of each loss, including loss adjustment expense, up to $800,000 When the company's net retention is $250,000 or less in respect to a risk, up to 50% of the risk on a pro rata basis
	Reinsurance premium:	The pro rata share of all premiums corresponding to the amount of each risk ceded

	Ceding commission:	18% provisional, subject to loss experience Minimum = 15% Maximum = 35%
3.	Type of contract:	Class C-1 Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$25,000
	Coverage:	100% of any loss excluding loss adjustment expense in excess of $25,000 for each and every loss up to a maximum for the reinsurer of $75,000
	Reinsurance premium:	15% of net premiums written
	Ceding commission:	None
4.	Type of contract:	Class C-2 Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$100,000 in respect to each and every loss.
	Coverage:	100% in excess of retention up to $150,000, excluding loss adjustment expense
	Reinsurance premium:	2.5% of net premium written
	Ceding commission:	None
5.	Type of contract:	Class D/E Aggregate Stop Loss
	Lines reinsured:	All property business
	Company's retention:	65% of net premiums written subject to a minimum of $350,000
	Coverage:	100% in excess of retention excluding loss adjustment expenses
	Reinsurance premium:	5% of net premiums written
	Ceding commission:	None

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments made as a result of the examination are noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Eagle Point Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2000

Assets	**Ledger**	**Nonledger**	**Not Admitted**	**Net Admitted**
Cash in Company's Office	$ 200	$	$	$ 200
Cash Deposited in Checking Account	9,858			9,858
Cash Deposited at Interest	454,011			454,011
Bonds (at Amortized Cost)	392,358			392,358
Stocks or Mutual Fund Investments (at Market)	1,328,582			1,328,582
Real Estate (Net of Accumulated Depreciation and Encumbrances)	4,580			4,580
Premiums and Agents' Balances In Course of Collection	14,920			14,920
Premiums and Agents' Balances and Installments Booked But Deferred and Not Yet Due	225,112			225,112
Investment Income Due or Accrued		3,158		3,158
Reinsurance Recoverable on Paid Losses and LAE	6,092			6,092
Electronic Data Processing Equipment - Excluding Software (Cost Less Accumulated Depreciation	2,185			2,185
Fire Dues Recoverable	391			391
Reinsurance Premium Overpayment Receivable	18,932			18,932
Furniture and Fixtures	8,774		8,774	0
TOTALS	$ 2,465,995	$ 3,158	$ 8,774	$ 2,460,379

Liabilities and Surplus

Net Unpaid Losses	$ 77,435
Unpaid Loss Adjustment Expenses	3,405
Commissions Payable	44,068
Federal Income Taxes Payable	6,650
Net Unearned Premiums	228,340
Reinsurance Payable	112,325
Amounts Withheld for the Account of Others	1,717
Payroll Taxes Payable	503
Other Liabilities:	
Expense Related	
Accounts Payable	478
Nonexpense Related	
Premiums received in advance	29,180
TOTAL LIABILITIES	504,101
Policyholders' Surplus	1,956,278
TOTAL	$ 2,460,379

Eagle Point Mutual Insurance Company
Statement of Operations
For the Year 2000

Net Premiums and Assessments Earned	$ 377,121
Deduct:	
Net Losses Incurred	268,901
Net Loss Adjustment Expenses Incurred	69,114
Other Underwriting Expenses Incurred	139,846
Total Losses and Expenses Incurred	477,861
Net Underwriting Gain (Loss)	(100,740)
Net Investment Income:	
Net Investment Income Earned	40,545
Net Realized Capital Gains	51,258
Total Investment Income	91,803
Other Income:	
Miscellaneous Income	
Policy Fees	28,951
Net Investment and Other Income	120,754
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	20,014
Policyholder Refunds or Dividends	0
Net Income (Loss) Before Federal Income Taxes	20,014
Federal Income Taxes Incurred	23,633
Net Income (Loss)	$ (3,619)

Eagle Point Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		$1,577,160
1996		
Net income (loss)	$12,245	
Net unrealized capital gains or losses	66,342	
Change in nonadmitted assets	214	
Change in surplus as regards policyholders for the year		78,801
Surplus as regards policyholders, December 31, 1996		1,655,961
1997		
Net income (loss)	$19,414	
Net unrealized capital gains or losses	53,934	
Change in nonadmitted assets	(54)	
Change in surplus as regards policyholders for the year		73,294
Surplus as regards policyholders, December 31, 1997		1,729,255
1998		
Net income (loss)	($60,538)	
Net unrealized capital gains or losses	243,200	
Change in nonadmitted assets	1,183	
Change in surplus as regards policyholders for the year		183,843
Surplus as regards policyholders, December 31, 1998		1,913,100
1999		
Net income (loss)	$59,454	
Net unrealized capital gains or losses	86,714	
Change in nonadmitted assets	(9,685)	
Change in surplus as regards policyholders for the year		136,483
Surplus as regards policyholders,		

December 31, 1999		2,049,583
2000		
Net income	($3,619)	
Net unrealized capital gains or losses	(91,962)	
Change in nonadmitted assets	2,276	
Change in surplus as regards policyholders for the year		(93,305)
Surplus as regards policyholders, December 31, 2000		**$**1,956,278

Reconciliation of Policyholders' Surplus

There were no adjustments to surplus during this examination.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Treatment of Policyholders - It is again recommended that each applicant sign an undertaking agreement in accordance with s. 612.52, Wis. Stat

   Action—Partial compliance, see Current Examination Results section of this report for further information.

2. Invested Assets - It is again recommended that the company comply with the requirements of s. 610.23, Wis. Stat., and s. Ins 13.05 (4), Wis. Adm. Code, as regards custody and control of its invested assets.

   Action—Compliance.

3. Net Unpaid Losses - It is again recommended that all proof-of-loss forms be signed by the claimant.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period. The minutes do not state the number of policyholders attending the annual meeting making it impossible to verify that a quorum existed. It is recommended that the company state the number of policyholders attending the annual meeting.

Employee pay raises were approved by the board including one board member who is also an employee and did not abstain from the vote. It is recommended that directors abstain on issues where a conflict of interest exists pursuant to s. 612.18, Wis. Stat. A review of the minutes also revealed that the board conducted its agency's' business (a separate corporation with the same board members) during the insurance company board meeting. It is recommended that the board conduct only the insurance company business during its meetings.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being noted. Three board members noted other insurance companies whose products they sell.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	**Coverage Limits**
Surety Bond	$250,000 - All employees and directors are covered.
Workers Compensation	$100,000 bodily injury per Accident $500,000 bodily injury by disease policy limit $100,000 bodily injury by disease per employee
E&O	$1,000,000 per claim $5,000 Deductible
Business Owners	$1,000,000 liability and medical expense (each occurrence) $5,000 medical expenses (any one person) $250,000 fire legal liability $2,000,000 products completed operations aggregate limit $2,000,000 general aggregate limit (other than products – completed operations) $253,809 on building $22,000 business personal property
Inland Marine	$7,536 computer equipment $10,000 data and media $10,000 extra expense

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business with endorsements is inspected by an independent inspector.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses. The board only appointed the committee in 2001. It is recommended that the board appoint an adjusting committee annually pursuant to s. 612.13 (4), Wis. Stat.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers through the use of passwords.

Company personnel back up the computers weekly and the backed-up data is kept on-site. It is recommended that the company establish a procedure in which its computer system is backed up at least weekly and the backed-up data is kept in a safe place separate from the location where the computer is kept.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Holding Company

The company created Eagle Point Agency, Inc. (Agency) on September 1, 1999, and the same board and officers manage both the company and the agency. On September 7, 1999 the company obtained a loan for $150,000.00 and paid an additional $9,829.50 in cash to purchase a block of renewals. This was the only funding contributed and no stock was issued by the Agency. The Agency received a loan from the bank and paid the company $150,000.00 on December 20, 1999, leaving a loan to the Agency of $9,826.50. The Agency paid the balance on March 16, 2000 ($4,826.50) and on June 15, 2000 ($5,000.00).

A holding company system was formed when the agency was created due to the common management and control of the companies. The funding contributed to the agency was a transaction between affiliates which should have been reported to the commissioner 30 days prior to the effective date, pursuant to s. Ins 40.04, Wis. Adm. Code. Additionally, the company has not filed any holding company statements required by Ins. 40.03 Wis. Adm. Code. As of the examination date the company was intending to sell the Agency to the independent contractor agent that has been servicing the business. It is recommended that the company submit evidence of the sale of the Agency and if the company does not sell the Agency by December 31, 2001, file all the appropriate holding company filings pursuant to ss Ins 40.03 and 40.04, Wis. Adm. Code.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities

shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements. The company disposed of the one bond that was held by a broker.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as “Type 2”) provided that the town mutual has a sufficient amount of lower risk investments (referred to as “Type 1”). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$804,101
2.	Liabilities plus 33% of gross premiums written	844,298
3.	Liabilities plus 50% of net premiums written	689,082
4.	Amount required (greater of 1, 2, or 3)	844,298
5.	Amount of Type 1 investments as of 12/31/2000	905,304
6.	Excess or (deficiency)	61,006

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$**464,069

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 200
Cash deposited in banks-checking accounts	9,858
Cash deposited in banks at interest	454,011
Total	$464,069

Cash in the company's office at year-end represents the company's cash fund for making change. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one bank account. Verification of checking account balances was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of eight deposits in eight depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled $30,195 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.0% to 7.0%. Accrued interest on cash deposits totaled $1,648 at year-end.

Book Value of Bonds **$**392,358

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2000. Bonds owned by the company are located in a safe deposit box.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2000 on bonds amounted to $3,375 and was traced to cash receipts records. Accrued interest of $774 at December 31, 2000, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$**1,328,582

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2000. Stocks owned by the company are located in a bank safe deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The company had 52% of its assets in stocks and mutual funds. This is in excess of 25% of the asset limitation pursuant to s. 6.20 (6)(d)(3) Wis. Stat. It is recommended that the company submit a plan including regular scheduled divestments to bring stocks and mutual fund investments into compliance with s. 6.20 (6)(d)(3) Wis. Stat.

Dividends received during 2000 on stocks and mutual funds amounted to $13,827 and were traced to cash receipts records. Accrued dividends of $736 at December 31, 2000, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$** 4,580

The above amount represents the company's investment in real estate as of December 31, 2000. The company's real estate holdings consisted of home office building and land.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight line method.

Agents' Balances or Uncollected Premiums **$** 14,920

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Agents' Balances or Booked but Deferred **$** 225,112

The above ledger asset represents premiums due from agents or policyholders on unbilled installments. The balance was reviewed with agents' balances or uncollected premiums and was determined to be reasonably stated.

Investment Income Due and Accrued **$** 3,158

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

Accrued Interest Savings	$1,648
Accrued Interest Bonds	774
Accrued Dividends Receivable	736
	$3,158

Reinsurance Recoverable on Paid Losses **$** 6,092

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 2000. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$** 2,185

This asset consists of $2,185 of computer equipment owned by the company at December 31, 2000. Invoices and depreciation schedules were reviewed to verify this asset.

Fire Dues Recoverable **$**391

The above asset represents fire dues recoverable. The examiners verified the amount by reviewing fire dues filing with the state..

Reinsurance Commissions Receivable **$**18,932

The above asset represents commission receivable due the company from its reinsurer and an estimate for the deferred portion.

Equipment, Furniture, and Supplies **$** 8,774

This asset consists of $8,774 of equipment, furniture and software owned by the company at December 31, 2000. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$** 77,435

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	**Examiners' Development**	**Difference**
Incurred But Unpaid Losses	$255,777	$254,779	$ 905
Less:			
Reinsurance Recoverable on Unpaid Losses	178,341	182,262	(3,921)
Net Unpaid Losses	$ 77,436	$ 72,517	$ 4,826

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date, if any. The above difference of $4,826 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$**3,405

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to add amounts for claims that have been turned over for adjusting, plus normal loss adjusting expense payable.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$** 44,068

This liability represents amounts due to the company's agents at December 31, 2000. Supporting records verified this amount.

Federal Income Taxes Payable **$** 6,650

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2000.

The examiners reviewed the company's 2000 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$** 228,340

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$** 112,325

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions which occurred on or prior to that date.

Class A Liability	($ 319)
Class B Quota Share	1,844
Class C2 Excess	200
Class D/E	600
Deferred	110,000
	$112,325

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$** 1,717

This liability represents employee payroll deductions in the possession of the company at December 31, 2000. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$** 503

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2000, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$** 478

This liability represents bills that were payable at December 31, 2000. Supporting documents verified this amount.

Advanced Premiums **$** 29,180

This liability represents the premium paid in advance. It was verified by comparing the list for advance premiums to cash receipts.

V. CONCLUSION

Eagle Point Mutual Insurance Company is a town mutual insurer covering a nine county area. The company has been in business for almost 122 years providing property and liability insurance to its policyholders.

Since the prior examination of December 31, 1995 the company's assets have grown 31% from $1,872,295 to $2,460,379. Liabilities increased 70% from $295,135 to $504,101. Surplus increased 24% from $1,577,160 to $1,956,278. Policy counts went from 1,370 to 1,145. The company experienced net losses two out of the last five years.

This examination resulted in seven recommendations. The recommendations are listed on page 28 of this report. No adjustments were made as a result of this examination.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 Corporate Records – It is recommended that the company state the number attending the annual meeting.

2. Page 16 Corporate Records – It is recommended that directors abstain on issues where a conflict of interest exists per Insurance Commissioner directive dated 03/09/89.

3. Page 16 Corporate Records – It is recommended that the board conduct only the insurance company business during its meetings.

4. Page 17 - Claims Adjusting—It is recommended that the board appoint an adjusting committee annually pursuant to s. 612.13 (4), Wis. Stat.

5. Page 18 - EDP Environment—It is recommended that the company establish a procedure in which its computer system is backed up at least weekly and the backed-up data is kept in a safe place separate from the location where the computer is kept.

6. Page 19 Holding Company - It is recommended that the company file the appropriate holding company filings pursuant to Ins. 40.03 Wis. Adm. Code.

7. Page 22 Stocks and Mutual Fund Investments - It is recommended that the company submit a plan including regular scheduled divestments to bring stocks and mutual fund investments into compliance with s. 6.20 (6)(d)(3) Wis. Stat.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Mark Lasowski of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge